

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Charter Township of Clinton Fire and Police Pension System</u>	County Macomb
Audit Date March 31, 2004	Opinion Date July 9, 2004	Date Accountant Report Submitted To State: September 30, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 S. Main St., Suite 200	City Mt. Clemens	State MI	ZIP 48043
Accountant Signature 			

**Charter Township of Clinton
Macomb County, Michigan
Fire and Police Pension System**

**Financial Report
with Supplemental Information
March 31, 2004**

Charter Township of Clinton Fire and Police Pension System

Contents

Report Letter	I
Financial Statements	
Statement of Plan Net Assets	2
Statement of Changes in Plan Net Assets	3
Notes to Financial Statements	4-10
Required Supplemental Information	
Schedule of Funding Progress	11
Schedule of Employer Contributions	12



Plante & Moran, PLLC
Suite 200
10 S. Main St.
Mount Clemens, MI 48043
Tel: 586.465.2200
Fax: 586.469.0165
plantemoran.com

Independent Auditor's Report

To the Retirement Board
Charter Township of Clinton, Michigan
Fire and Police Pension System
Charter Township of Clinton
Macomb County, Michigan

We have audited the accompanying basic financial statements of the Charter Township of Clinton, Michigan Fire and Police Pension System as of and for the year ended March 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Clinton, Michigan Fire and Police Pension System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Charter Township of Clinton, Michigan Fire and Police Pension System as of March 31, 2004 and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

July 9, 2004



A worldwide association of independent accounting firms

Charter Township of Clinton Fire and Police Pension System

Statement of Plan Net Assets March 31, 2004

Assets

Bank deposits (Note 3)	\$ 59,124
Investments (Note 3):	
Common stock	48,323,829
U.S. Treasury notes	778,651
U.S. government agency securities	5,886,860
Corporate bonds	9,687,231
Money market funds	1,185,217
Bank investment pools	454,130
Mutual funds	<u>5,362,543</u>
Total investments	71,678,461
Cash and investments held as collateral for securities lending	<u>8,273,876</u>
Total assets	80,011,461

Liabilities

Deferred retirement benefits payable	582,703
Other liabilities	68,696
Amounts due broker under securities lending agreement	<u>8,273,876</u>
Total liabilities	<u>8,925,275</u>

Net Assets Held in Trust for Pension Benefits - See schedule
of funding progress as presented on page 11

\$ 71,086,186

Charter Township of Clinton

Fire and Police Pension System

Statement of Changes in Plan Net Assets Year Ended March 31, 2004

Additions

Contributions:

Employee	\$ 702,599
Township	<u>1,853,582</u>

Total contributions	2,556,181
---------------------	-----------

Investment income:

Interest and dividends	1,666,768
Net appreciation in fair value of investments	16,555,150
Less investment expenses	<u>(327,747)</u>

Net investment income	17,894,171
-----------------------	------------

Securities lending income:

Interest and fees	76,924
Less borrower rebates and fees	<u>(68,719)</u>

Net securities lending income	<u>8,205</u>
-------------------------------	--------------

Total additions	20,458,557
-----------------	------------

Deductions

Pension payments and annuity withdrawals	2,795,672
Administrative expenses	<u>72,033</u>

Total deductions	<u>2,867,705</u>
------------------	------------------

Net Increase in Net Assets	17,590,852
-----------------------------------	------------

Net Assets - April 1, 2003	<u>53,495,334</u>
-----------------------------------	-------------------

Net Assets - March 31, 2004	<u><u>\$ 71,086,186</u></u>
------------------------------------	-----------------------------

Charter Township of Clinton Fire and Police Pension System

Notes to Financial Statements March 31, 2004

Note 1 - General Comments

This pension system accounts for the Charter Township of Clinton and employee contributions to the Fire and Police Pension System, which is established under Public Act 345 of 1937, as amended. The accounts of the Fire and Police Pension System (the "Pension System") are also included in the basic financial statements of the Charter Township of Clinton.

Note 2 - Summary of Significant Accounting Policies

The Pension System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

Note 3 - Deposits and Investments

The Pension System's deposits and investments at March 31, 2004 are included on the statement of plan net assets under the following classifications:

Cash and cash equivalents	\$ 1,698,471
Investments	70,039,114
Cash and investments held at collateral for securities lending	<u>8,273,876</u>
Total	<u>\$ 80,011,461</u>

Charter Township of Clinton

Fire and Police Pension System

Notes to Financial Statements March 31, 2004

Note 3 - Deposits and Investments (Continued)

The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Bank deposits	\$ 59,124
Investments	<u>79,952,337</u>
Total	<u>\$ 80,011,461</u>

Deposits - The Pension System's deposits are included on the balance sheet under the "bank deposits" caption; they were reflected in the accounts of the bank or brokerage firm (without recognition of checks written but not yet cleared or of deposits in transit) at \$40,408. Of that amount, \$25,005 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Investments - The Pension System is authorized by Michigan Public Act 485 of 1996 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Pension System's investments are categorized below to give an indication of the level of risk assumed by the entity at March 31, 2004. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Pension System or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department in the Pension System's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department but not in the Pension System's name

Charter Township of Clinton

Fire and Police Pension System

Notes to Financial Statements March 31, 2004

Note 3 - Deposits and Investments (Continued)

The investments of the Pension System consist of the following:

	<u>Market Value</u>
Category 3 investments:	
Common stock	\$ 43,215,746
U.S. Treasury notes	778,651
U.S. government agency securities	4,026,248
Corporate bonds	<u>8,622,707</u>
 Total Category 3 investments	 56,643,352
 Investments - Not categorized:	
Money market funds	1,185,217
Bank investment pools	454,130
Mutual funds	5,362,543
Investments held by broker-dealers and banks under securities loans:	
U.S. government agency securities	1,860,612
Corporate bonds	1,064,524
Common stock	5,108,083
Securities lending cash and investments	<u>8,273,876</u>
 Total investments	 <u>\$ 79,952,337</u>

The money market funds, investment pools, and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The investments held by broker-dealers and banks under securities loans are not categorized because the corresponding collateral is recorded in the financial statements. The mutual funds and money market funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

Charter Township of Clinton Fire and Police Pension System

**Notes to Financial Statements
March 31, 2004**

Note 3 - Deposits and Investments (Continued)

Included in the Pension System investments at March 31, 2004 are the following:

- Approximately \$5,886,860 of securities issued by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC). The GNMA investments are backed by the full faith and credit of the U.S. government whereas the FNMA and FHLMC investments are backed only by the applicable government agency. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$1,050,000 of corporate asset-backed securities. The yields on these mortgage-related securities are comparable to those of mortgage-backed securities issued by federal government agencies. These investments are backed only by the various issuing corporations and have the potential for prepayment. In the event of prepayment, the Township could experience difficulty reinvesting the proceeds in investments with comparable yields.

Securities Lending - As permitted by State statutes and under the provisions of a Securities Lending Authorization Agreement, the Fire and Police Pension System Trust Fund lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Pension System's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended March 31, 2004, only United States currency was received as collateral.

The Pension System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the custodial bank.

Charter Township of Clinton

Fire and Police Pension System

Notes to Financial Statements March 31, 2004

Note 3 - Deposits and Investments (Continued)

The Pension System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of March 31, 2004 was 129 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On March 31, 2004, the Pension System had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the Pension System as of March 31, 2004 were \$8,273,876 and \$8,033,220, respectively.

Note 4 - System Description and Contribution Information

Membership of the plan consisted of the following at March 31, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>78</u>
Current employees:	
Fully vested	117
Nonvested	<u>75</u>
Total current employees	<u>192</u>
Number of participating employers	<u>1</u>

The Pension System is the administrator of a single-employer public employees' retirement system that covers all police and fire employees of the Charter Township of Clinton, Michigan. The Pension System is composed of a defined contribution plan to account for the employees' contributions and a defined benefit plan to account for the Township's contribution and retirees' reserve. For accounting purposes, these plans are combined.

The Pension System provides retirement benefits, as well as death and disability benefits.

Charter Township of Clinton Fire and Police Pension System

**Notes to Financial Statements
March 31, 2004**

Note 4 - System Description and Contribution Information (Continued)

Depending on their collective bargaining unit, plan members are required to contribute between 4.0 percent and 6.65 percent of their annual covered salary. The Charter Township of Clinton is required to contribute at an actuarially determined rate. The obligation to contribute to and maintain the Pension System for these employees was established by Act No. 345 of the Public Acts of 1937, as amended, and modified by the collective bargaining agreements. Administrative costs of the Pension System are financed through investment earnings.

Note 5 - Annual Pension Cost

For the year ended March 31, 2004, the Township's annual pension cost of \$1,853,582 for the plan was equal to the Pension System's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at March 31, 2002. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.5 percent per year, compounded annually, (b) projected salary increases of 5.0 percent to 9.0 percent per year compounded annually, and (c) no postretirement benefit increases. Both (a) and (b) include inflation at 4.5 percent. For actuarial purposes, asset values are determined using techniques that smooth the effects of short-term market volatility over a four-year period. Level of percentage of payroll employer contribution rates is determined using the entry age normal actuarial funding method. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at March 31, 2002 was 19 years.

Charter Township of Clinton

Fire and Police Pension System

Notes to Financial Statements

March 31, 2004

Note 6 - Reserves

The reserves of the Pension System are as follows:

	Reserved for Employee Contributions	Reserved for Employer Contributions	Reserved for Membership Annuities	Total
Balances - April 1, 2003	\$ 6,556,419	\$ 22,206,926	\$ 24,731,989	\$ 53,495,334
Additions				
Contributions:				
Members	699,609	2,990	-	702,599
General Fund	-	1,853,582	-	1,853,582
Net investment gain	-	17,894,171	-	17,894,171
Securities lending income	-	8,205	-	8,205
Total balances and additions	7,256,028	41,965,874	24,731,989	73,953,891
Transfers				
Interest	136,621	(1,898,948)	1,762,327	-
Reserve adjustment	(253,138)	(1,030,607)	1,283,745	-
Total balances and additions after transfers	7,139,511	39,036,319	27,778,061	73,953,891
Deductions				
Pension benefits	-	-	(2,795,672)	(2,795,672)
Refunds and other administrative expenses	-	(72,033)	-	(72,033)
Balances - March 31, 2004	<u>\$ 7,139,511</u>	<u>\$ 38,964,286</u>	<u>\$ 24,982,389</u>	<u>\$ 71,086,186</u>

Required Supplemental Information

Charter Township of Clinton

Fire and Police Pension System

Required Supplemental Information Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability* (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
03/31/98	\$ 46,866,937	\$ 46,545,707	\$ (321,230)	100.7	\$ 9,766,223	(3.3)
03/31/99	52,769,536	51,385,634	(1,383,902)	102.7	10,375,778	(13.3)
03/31/00	59,925,922	54,892,942	(5,032,980)	109.2	11,218,992	(44.9)
03/31/01	63,882,741	57,476,278	(6,406,463)	111.1	11,533,887	(55.5)
03/31/02	67,781,390	60,903,731	(6,877,659)	111.3	11,833,874	(58.1)
03/31/03	68,539,019	65,622,382	(2,916,637)	104.4	13,267,042	(22.0)

* Entry age method

Charter Township of Clinton

Fire and Police Pension System

Required Supplemental Information Schedule of Employer Contributions

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
03/31/99	03/31/97	\$ 1,975,545	100.0
03/31/00	03/31/98	1,942,932	100.0
03/31/01	03/31/99	1,786,889	100.0
03/31/02	03/31/00	1,754,118	100.0
03/31/03	03/31/01	1,839,220	100.0
03/31/04	03/31/02	1,853,582	100.0

The required contribution is expressed to the Township as a percentage of payroll.

Valuation date	March 31, 2003
Actuarial cost method	Individual entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	19
Asset valuation method	4-year smoothed market value
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases**	5.0% - 9.0%
** Includes inflation at	4.5%
Cost of living adjustments	None